No. 95-1593

Supreme Court, U.S.
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IN THE

Supreme Court of the United States

OCTOBER TERM, 1995

BEEBE BOURNE, d/b/a BOURNE CO.,

Petitioner,

—v.—

THE WALT DISNEY COMPANY
and BUENA VISTA HOME VIDEO,

Respondents,

TOWER RECORDS, INC., BARNES & NOBLE BOOKSTORES, INC., BLOCKBUSTER ENTERTAINMENT CORP., RKO WARNER VIDEO, INC. and JOHN DOES 1 THROUGH 100,

Defendants.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

PETITION FOR A WRIT OF CERTIORARI

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QUESTIONS PRESENTED

1. Whether the first sale doctrine, embodied in 17 U.S.C. § 27 of the Copyright Act of 1909 and 17 U.S.C. § 109 of the Copyright Act of 1976, confers upon a non-exclusive licensee of the rights to record copyrighted music on the soundtrack of a motion picture and to give public performances of such recordings in connection with the exhibition of that film in theaters, the right to sell videocassette recordings of the copyrighted music to the public.

2. Whether non-exclusive licenses granting the right to use copyrighted music in "motion pictures" also impliedly grants the right to record the copyrighted music onto videocassettes and to sell those videocassettes, where:

   (a) Videocassette technology was unknown when the parties executed the licenses and was not to be invented for forty years; and

   (b) The licenses made no reference to any other future technologies yet to be developed.

3. Whether when older licenses are construed in light of later-invented technologies, the copyright owner-licensor, as opposed to a non-exclusive licensee, should have the burden of proving a negative: that rights in technologies and methods of distribution which were unknown at the time when the contract was entered into were not conferred by the licenses.

RULE 29.1 STATEMENT

Petitioner Beebe Bourne is a sole proprietor doing business as Bourne Co. and there are no parent companies, subsidiaries or affiliates which have issued shares to the public.

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Beebe Bourne d/b/a Bourne Co. ("Bourne") respectfully petitions for a writ of certiorari to review the judgment of the United States Court of Appeals for the Second Circuit.

OPINIONS BELOW

The decision of the Court of Appeals sought to be reviewed is reported at 68 F.3d 621. (Pet. App. 1a-27a). Related decisions of the District Court and the Court of Appeals are reported at 1992 WL 170686, 1992 Copyright L. Dec. (CCH) ¶26,934 (S.D.N.Y.) (Pet. App.57a-71a), *rev'd*, 976 F.2d 99 (2d Cir. 1992) (Pet. App. 39a-44a); 1992 WL 204343, 1992 Copyright L. Dec. (CCH) ¶26,969 (S.D.N.Y. 1992) (Pet. App. 45a-56a); 1992 WL 489766, 1993 Copyright L. Dec. (CCH) ¶27,076 (S.D.N.Y. 1992) (Pet. App. 36a-38a).

JURISDICTION

The judgment of the Court of Appeals was entered on October 18, 1996. (Pet. App. 1a). The Court of Appeals denied a timely petition for rehearing and suggestion for rehearing in banc on January 3, 1996. (Pet. App. 72a-73a). The jurisdiction of this Court is invoked under 28 U.S.C. § 1254.

CONSTITUTIONAL AND STATUTORY PROVISIONS INVOLVED

United States Constitution, art. I, § 8, cl. 8

> The Congress shall have Power . . . To promote the Progress of Science and the useful Arts, by securing for limited Times to Authors and Investors the exclusive Right to their respective Writings and Discoveries.

17 U.S.C. § 27 (1909 Act); 17 U.S.C. § 101, 17 U.S.C. § 106, 17 U.S.C. § 109, 17 U.S.C. § 202 (1976 Act). (The full text of the statutory provisions involved is set forth in the accompanying Appendix (Pet. App. 102a-104a)).

STATEMENT OF THE CASE

This case presents issues of fundamental importance to copyright owners and licensees of rights in music, motion pictures, television, computer software and all new media, technologies and means of distribution. The case involves the fundamental question of whether copyright owner-licensors, rather than non-exclusive licensees, have the right to exploit newly-invented technologies where the agreement is silent on the question. Specifically, the first issue is whether, when a non-exclusive copyright license grants only the rights to record (17 U.S.C. § 106(1)) and publicly perform (17 U.S.C. § 106(4)) copyrighted songs in one medium (public theatrical film exhibition), the copyright owner-licensor may be dispossessed of her exclusive right to *distribute* recordings of such songs (17 U.S.C. § 106(3)) in another medium (videocassettes sold for private home use) by operation of the first sale doctrine (17 U.S.C. § 27 (1909, superseded); 17 U.S.C. § 109(a) (1976)). The second issue is whether a non-exclusive copyright license which grants only the rights to record and publicly perform the copyrighted songs in "motion pictures" also impliedly grants the right to make videocassette recordings of the songs where that new technology had not been invented at the time of contracting and could not have been within the contemplation of the parties. The remaining issue concerns whether the copyright owner should bear the burden of proving that rights in media and technological applications not yet invented were *not* conferred.

The matter before the Court involves the copyrights to the songs from the classic Walt Disney full-length feature films "Snow White and the Seven Dwarfs" and "Pinocchio," and presents the question of whether non-exclusive licenses, granting the rights to record the music on the soundtrack and to perform the music in connection with the theatrical exhibition of the films, include the rights to fix the music onto videocassettes and to sell them to the public. There are hun-

dreds of thousands of extant copyright licenses in the motion picture, television and music recording industries which will be affected by the resolution of this question due to the advent of videocassette, compact disc and CD-ROM technology. With the pace of technological change accelerating, with new entertainment media and channels of distribution constantly being invented, and with advances in software and hardware being made every day in the computer industry, countless future copyright licenses will be negatively impacted by the conflicting rules of interpretation created by this case. Because the interpretation of old contracts in light of new and future technologies represents potential revenues of hundreds of millions of dollars to copyright owners, authors and licensees, this case is of the utmost interest to the multi-billion dollar entertainment, publishing and computer industries. Also at issue in this case are the fundamental purposes of the copyright laws to motivate and protect the efforts of copyright authors and owners and the determination of how the underlying Constitutional principles are best served in our new digital world.

Petitioner Bourne is the copyright owner of the songs appearing in the films "Snow White" and "Pinocchio." Bourne's predecessor, Irving Berlin, Inc., acquired the copyrights from Disney in the 1930's, when Disney had no means to exploit such music apart from its performance in conjunction with the public exhibition of films. Realizing that there was additional revenue to be made from the sale and licensing of such music in such other media as piano rolls, sheet music, phonorecords and radio, Disney, as was the custom in those days, conveyed the copyrights in the songs from "Snow White" and "Pinocchio" in consideration for half the royalties received by Bourne, a prominent music publisher, from exploitation of the music in all media.[1] Pursuant to these

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[1] The full text of the 1937 "Snow White" agreement is located at JAX 885-87. Excerpts from the 1937 "Snow White" agreement are located at Pet. App. 95a-97a. Excerpts from the 1939 "Pinocchio" agreement are located at Pet. App. 98a-100a. The full text of the "Pinocchio"

agreements, Disney received from Bourne non-exclusive licenses of the right to record that music on its soundtracks in synchronism with the animated films (the right to reproduce) and to give public performances of the music in connection with the exhibition of the two films (the right to publicly perform).[2] (Pet. App. 99a, 101a).

Since theatrical film distribution was conducted by means of exhibition licenses to theaters, Disney did not need the right to sell film prints containing the copyrighted music and consequently the license agreements did not provide Disney with a right to sell. (Pet. App. 99a, 101a).

Videocassette technology was not invented until the 1970's. (JAX 221, 605, 676-78). Disney historically had a policy of prohibiting the exploitation of its full-length feature films in media other than theatrically-exhibited film. 68 F.3d at 626. (Pet. App. 9a). After unsuccessfully fighting to have the sale of videotape recorders enjoined as a contributory infringement of copyright in *Sony Corp. v. Universal City Studios Inc.*, 464 U.S. 417 (1984), and a change of management, Disney abandoned its policy and began to transfer its motion picture films to videocassette format for sale to the public and to create new derivative videos. The videocassettes at issue, for which no license was secured, consist of SingAlong Songs,

agreement is located at JAX 888-96. References to "JAX" are to the pages of the Joint Appendix in the Court of Appeals. Excerpts of the 1933 Shorts Agreement are reproduced at Pet. App. 101a. The full text of the 1933 Agreement is located at JAX 950-59.

[2] Actually, there is no license back to Disney with regard to "Snow White." The district court permitted the jury to consider a 1933 Agreement relating to a series of shorts, as applying to "Snow White." The Court of Appeals held, as a matter of law, that the 1933 Agreement did not apply to "Snow White." 68 F.3d at 627 (Pet. App. 11a-13a). Nevertheless, substituting itself for the factfinder, the Court of Appeals found an implied agreement between the parties relating to "Snow White" embodying the terms of paragraph 2 of the 1933 Agreement. Although this was clear error, for purposes of presentation of the legal issues herein, we will assume *arguendo* that there was such an implied agreement.

each of which is an audiovisual songbook featuring Bourne's songs and printed lyrics; a rock video, "Simply Mad About the Mouse," also featuring the printed lyrics; a videocassette version of the film "Pinocchio"; and a videocassette advertising trailer using Bourne's songs. Following the trial, Disney issued "Snow White" in videocasette format. Lacking both the right to record Bourne's copyrighted music on videotape and the right to sell those videocassettes without new licenses, Disney should have been adjudged an infringer of Bourne's copyrights.

Nevertheless, the Court of Appeals upheld Disney's actions on two insupportable premises. It held, contrary to all precedent, that the essential right to sell videocassettes, concededly not granted by the licenses, was supplied as a matter of law by the first sale doctrine, embodied in Section 27 of the 1909 Copyright Act and in Section 109 of the 1976 Copyright Act. It also held, equally illogically, that by using the term "motion pictures" in the 1930's licenses, the parties intended to include videocassette technology, notwithstanding that the medium was unknown, would not be invented for another forty years, and that the licenses contained no grant of future technology rights.[3] Finally, the Court of Appeals erred by shifting the burden of proof on Disney's affirmative defense of license to Bourne, requiring the copyright owner to prove a negative: that the parties intended to *exclude* videocassettes from the 1930's agreements, when the negotiators were dead and such technology did not even exist at the time.

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[3] Actually, in the 1939 "Pinocchio" agreement, the parties provided in paragraph 5 that Bourne would account to Disney for royalties received from licensing all types of recording media including "player rolls, . . . records, discs, electrical transcriptions or synchronization in motion pictures, *or other devices* for the mechanical reproduction of the said musical compositions. . . ." (Pet. App. 100a) (Emphasis added). It is therefore clear that the agreement contemplated that Bourne, as copyright owner, retained the rights to exploit the copyrights in all media.

REASONS FOR GRANTING THE PETITION

The Second Circuit's holding creates a clear split in the circuits on a fundamental and frequently-arising issue of federal copyright law. First, the ruling throws into doubt what had previously been a clear understanding of the narrow scope of the first sale doctrine (based upon decisions of this Court, as well as several circuit courts of appeals), opening a Pandora's box which permits judges to use the doctrine to re-write contracts in hindsight and frustrate the understandings of the original parties and the purposes of the copyright law. Second, it creates widespread confusion by establishing a rule of construction contrary to that of other circuits and prior Second Circuit precedent with regard to the copyright rights to new technologies. Rather than narrowly construing grants of rights so that the authors and copyright owners-licensors may share in revenues generated by newly-invented technologies, it construes such grants broadly, thus giving the substantial economic benefits of unforeseen technology solely to non-exclusive licensees. This is contrary to the Congressional intent behind the copyright laws to benefit authors and copyright owners in order to effectuate the Constitutional purpose of furthering the progress of the arts and sciences.

By holding that Section 109 of the Copyright Act confers a statutory right to *sell* where no such right had been conferred by the licenses, and that 1930's non-exclusive licenses of the right to synchronize the copyrighted songs in "motion pictures" included the right to make videocassette recordings of Bourne's music when that technology would not be invented for forty years and therefore could not possibly have been within the contemplation of the parties, the decision below upsets the established understandings and expectations of parties within the entertainment and computer industries, encourages forum shopping, yields disparate, controversial and unintended results, and frustrates the fundamental purposes of the Copyright Act and its Constitutional mandate.

The Second Circuit's holding conflicts with longstanding precedent concerning the narrow scope of the first sale doctrine: this Court's decision in *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 350-51 (1908), Judge Friendly's decision in *Platt & Munk Co. v. Republic Graphics, Inc.*, 315 F.2d 847 (2d Cir. 1963), decisions in the Third, Fourth and Ninth Circuits, the clear intent of Congress as evidenced by the legislative history, and the Nimmer Treatise and other scholarly articles. This grave error alone justifies the Court's review.

In stretching the language of two 1930's licenses to embrace 1970's videocassette technology, the Second Circuit also rejects established case law and saddles the copyright owner with the impossible burden of proving a negative, that early licenses unambiguously exclude technology which the parties could never know would be invented and imputes the contemporary meaning of the term "motion picture" into the minds of negotiators long since dead.

This cannot be squared with the prior decision of this Court in *Manners v. Morosco*, 252 U.S. 317 (1920), or the holdings of the First, Second, Third, Fifth, Ninth and District of Columbia Circuits, and other courts which have spoken to this issue, including decisions specifically addressing the advent of videocassette technology.

I. THE DECISION OF THE COURT OF APPEALS CONFLICTS WITH THE DECISIONS OF THIS COURT AND THOSE OF SEVERAL CIRCUITS ON SIGNIFICANT ISSUES OF COPYRIGHT LAW

A. THE DECISION OF THE COURT OF APPEALS IS CONTRARY TO THE WELL-ESTABLISHED INTERPRETATION OF SECTION 109 TO REQUIRE A "FIRST SALE" OR TRANSFER OF TITLE BEFORE TRIGGERING THE FIRST SALE DOCTRINE

In this case the Second Circuit acknowledged that Disney had no contractual right to sell copies of recordings of Bourne's copyrighted music under the licenses.[4] 68 F.3d at 632 n.4 (Pet. App. 26a) Disney's avoidance of liability was therefore entirely dependent upon the Court's interpretation of 17 U.S.C. § 27 (1909 Act)[5] and 17 U.S.C. § 109 (1976 Act)—the first sale doctrine—as authorizing the sale of videocassettes.

The Second Circuit's holding that the first sale doctrine conferred the right to sell upon a non-exclusive licensee is contrary to this Court's landmark holding in *Bobbs-Merrill*, *supra*. In that case, this Court held that the copyright owner must first dispose of physical possession of a particular copy by transfer of ownership in order for the first sale doctrine to

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[4] The right to distribute (which includes the right to sell) is encompassed within the exclusive rights granted to copyright owners. 17 U.S.C. § 106(3).

[5] "Since the copyrights at issue were registered during the 1930s, when the 1909 Act was in force, [Bourne's] claims must be analyzed under that act." *Bourne*, 68 F.3d at 631 n.2 (Pet. App. 23a). Section 109 restated and confirmed the first sale doctrine enacted in Section 27 of the 1909 Copyright Act. H. R. Rep. No. 1476, 94th Cong., 2d Sess. at 79 ("House Report"), *reprinted in* 1976 U.S. Code Cong. & Admin. News ("U.S.C.C.A.N.") 5659, 5693.

apply. *See also Red Baron-Franklin Park, Inc. v. Taito Corp.*, 883 F.2d 275, 280 (4th Cir. 1989), *cert. denied*, 493 U.S. 1058 (1990); *Columbia Pictures Indus. v. Redd Horne, Inc.*, 749 F.2d 154, 159-60 (3d Cir. 1984); *United States v. Wise*, 550 F.2d 1180, 1189 (9th Cir.), *cert. denied*, 434 U.S. 929 (1977); *Platt & Munk Co. v. Republic Graphics, Inc.*, 315 F.2d 847 (2d Cir. 1963); *Independent News Co. v. Williams*, 293 F.2d 510 (3d Cir. 1961); *Hampton v. Paramount Pictures Corp.*, 279 F.2d 100, 103 (9th Cir.), *cert. denied*, 364 U.S. 882 (1960); David Nimmer and Melville B. Nimmer, 3 *Nimmer on Copyright*, § 8.12[D] at 8-168.7 to 8-168.9 (hereinafter "Nimmer"); House Report at 80, *reprinted in* 1976 U.S.C.C.A.N. at 5694 ("Acquisition of an object embodying a copyrighted work by rental, lease, loan or bailment carries with it no privilege to dispose of the copy under Section 109(a) or to display it publicly under Section 109(b). To cite a familiar example, a person who has rented a print of a motion picture from the copyright owner would have no right to rent it to someone else without the owner's permission.").

The Second Circuit's holding is also inconsistent with its own landmark precedent in *Platt & Munk Co. v. Republic Graphics, Inc.*, *supra*, which held in accord with *Bobbs-Merrill*, *supra*, that the transfer of title by the copyright proprietor is a condition to the application of § 109 and that only the *particular* print or copy may thereafter be transferred without committing an infringement. 315 F.2d at 854. The Second Circuit's purported distinction of *Platt & Munk* as "a case where the party claiming the benefit of the first sale doctrine is simply a bailee," 68 F.3d at 632 (Pet. App. at 25a), is truly a distinction without a difference. Disney's non-exclusive synchronization licenses authorized recording and performance of Bourne's music for the limited purpose of theatrical exhibition.[6] As a result, Disney's license was akin to a bail-

[6] The Court's statement that Bourne licensed Disney "to exploit the copyrighted compositions," 68 F.3d at 632 (Pet. App. 25a), is simply erroneous. As the copyright owner, Bourne retained its exclusive rights

ment, in that no sale was authorized without Bourne's permission.

The Second Circuit's decision is also contrary to the Ninth Circuit's holding in *Hampton v. Paramount Pictures Corp.*, 279 F.2d 100, 103 (9th Cir.), *cert. denied*, 364 U.S. 882 (1960), which held that a limited license to reproduce and distribute certain films "for strictly non-theatrical exhibitions" did not authorize the sale and commercial exhibition of one such film. Section 27 of the 1909 Act did not come into play because no transfer of title had occurred.

The Second Circuit's flawed holding renders meaningless the fundamental distinction between a "transfer of copyright ownership," which by definition includes an assignment or exclusive license, 17 U.S.C. § 101, and triggers the first sale doctrine, and a non-exclusive license, which is specifically excluded by that definition and consequently cannot constitute a "first sale."[7] *Compare* 17 U.S.C. § 101 *with* 17 U.S.C.

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to exploit the copyrights to the compositions, except for the limited non-exclusive license granted to Disney to record and perform the music through the theatrical exhibition of its films. Indeed, Disney in 1979 acknowledged Bourne's exclusive video rights to fix and sell when it bargained for and paid royalties to sell copies of its videocassette recording containing Bourne's "Snow White" songs. (JAX 1134-35).

The Court's statement mistakenly blurs the fundamental distinction between the right to publicly perform the music in connection with Disney's film exhibition and the right to sell videocassette recordings of Bourne's music. *See, e.g., Interstate Hotel Co. v. Remick Music Corp.*, 157 F.2d 744, 745 (8th Cir. 1946) (right to publish and sell and right to publicly perform are separate), *cert. denied*, 329 U.S. 809 (1947).

[7] In fact, even Disney's chief witness at trial and attorney, Peter Nolan, recognized this elementary predicate on more than one occasion. *See* Peter Nolan, *A Brighter Day for the Magic Lantern: Thoughts on the Impact of the New Copyright Act on Motion Pictures*, 11 Loy. L. Rev. 1, 35 n.208 (Dec. 1977) ("The 1976 Act makes plain that title must be conveyed in order for § 109 to become operative."); Peter Nolan, *All Rights Not Reserved After The First Sale*, 23 Bull. of Copyright Soc. 96, 78 (1975) ("The right to vend is not, however, limited at all under this codification of the first sale doctrine unless there is a sale or other transfer of title to a copy of the copyrighted work. . . .").

§ 109(d) (Section 109(a) does not apply to any person who has acquired possession of a copy "without acquiring ownership of it"); *see also Microsoft Corp. v. Harmony Computers & Elecs., Inc.*, 846 F. Supp. 208, 213 (E.D.N.Y. 1994) ("Entering a license agreement is not a 'sale' for purposes of the first sale doctrine.").[8] Such an interpretation of the Copyright Act is directly contrary to established precedent. *Platt & Munk Co. v. Republic Graphics, Inc.*, 315 F.2d at 854; *Houghton Mifflin Co. v. Stackpole Sons, Inc.*, 104 F.2d 306, 311 (2d Cir.), *cert. denied*, 308 U.S. 597 (1939). This holding, which renders Section 106(3) of the Copyright Act inoperative in light of the expansive construction of Section 109, violates an elementary canon of statutory construction. *Colautti v. Franklin*, 439 U.S. 379, 392 (1979) ("[A] statute should be interpreted so as not to render one part inoperative"); *United States v. Menasche*, 348 U.S. 528, 538-39 (1955) (same).

The Second Circuit's reasoning at footnote 4 that "Disney . . . having received a license to produce videocassettes . . . but being unable to sell or otherwise dispose of the videocassettes . . . would make little sense" is totally circular. 68 F.3d at 632 n.4 (Pet. App. 26a). Disney received a license to synchronize Bourne's music with its "motion pictures" (as the parties understood that term in the 1930's) and to exhibit those films theatrically. It was not necessary that Disney have the right to make or sell videocassettes to realize the full commercial benefits of the licenses it received.[9]

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[8] The impact of the Second Circuit's holding with respect to computer software cases is highlighted by the *Microsoft* decision involving Microsoft MS-DOS and Microsoft Windows which, given this revolutionary interpretation of Section 109, would have mandated a different, wide-ranging result conferring the right to sell this computer software upon a non-exclusive licensee.

[9] The Second Circuit's mistaken citation, 68 F.3d at 632 (Pet. App. 25a) to 2 *Nimmer on Copyright* § 8.12[B][3] as authority for imposition of an involuntary implied license ignores the principle that "[a]n implied license . . . must not exceed the limits necessary to make the contract effective", *McCoy v. Mitsuboshi Cutlery, Inc.*, 67 F.3d 917, 920

The "sense" of the parties is more clearly demonstrated by the fact that when Disney recorded and sold its first "Snow White" videocassette in 1979, it secured a new and separate license and paid royalties to Bourne for this very right. (JAX 1119-20, 1133-35, 1128-29).

The Second Circuit's shifting of the burden of proof to Bourne to rebut the presumption of a first sale defense, not only conflicts with Second and Ninth Circuit precedent in *United States v. Larracuente*, 952 F.2d 672 (2d Cir. 1992); *Oddo v. Ries*, 743 F.2d 630 (9th Cir. 1984), respectively, but also with Congress's explicit intent that "in an action to determine whether a defendant is entitled to the privilege established by Section 109(a) and (b), the burden of proving whether a particular copy was lawfully made or acquired should rest on the defendants." House Report at 81, *reprinted in* 1976 U.S.C.C.A.N. at 5695. Given that the district court removed the question of whether the licenses at issue conferred the right to sell from jury consideration based upon Disney's assertion of its Section 109 defense,[10] this error was critical.

(Fed. Cir. 1995) (citing *Waterman v. Mackensie*, 138 U.S. 352 (1892)), *cert. denied*, ___ U.S. ___, 64 U.S.L.W. 3620 (1996), and the fact that Disney had for forty years profited from the limited licenses to exhibit the films theatrically.

[10] The Second Circuit compounded this error by letting stand the district court's improper jury instruction based upon Section 109, which eliminated all references to the right to sell, and its subsequent instruction to the jury that the *only* "kin[d] of righ[t]" . . . required . . . to produce" videocassettes is the right to "synchronize". This effectively directed a verdict as to videocassettes in favor of Disney. (JAX 775-76, 803-05, 843-47).

B. THE DECISION OF THE COURT OF APPEALS DISREGARDS PRIOR PRECEDENT OF THIS COURT AND CREATES A DIVISION BETWEEN THE CIRCUIT COURTS AS TO RECOGNITION OF THE COPYRIGHT OWNER'S RIGHTS TO FUTURE TECHNOLOGY

The Second Circuit's holding also destroys a judicial template which this Court embraced in *Manners v. Morosco*, 252 U.S. 317, 325-26 (1920), and which other courts including the First, Second, Third, Fifth, Ninth and District of Columbia Circuits, as well as New York state courts, have consistently followed. This rule requires that as between the copyright owner and non-exclusive licensee, rights to future technology must be determined by the plain meaning of the contract and the technologies existing at the time of the license.

In *Manners v. Morosco*, *supra*, this Court held that a contract which granted "the sole and exclusive license and right to produce, perform and represent" the play "Peg O' My Heart" did not confer the right to create a derivative motion picture. *Manners* rejected an approach taken by earlier courts, such as *Frohman v. Fitch*, 164 A.D. 231, 233-34, 149 N.Y.S. 633, 634 (1st Dep't 1914), which held that any new uses developed must be included as an originally granted right in order to avoid diminishing the value of the licensee's rights. *Manners* held that the only rights licensed are those for which the licensee has contracted and imposed the responsibility for obtaining rights to future technology upon the licensee.

Applying this scheme, the Second Circuit in *Bartsch v. Metro-Goldwyn-Mayer, Inc.*, 391 F.2d 150 (2d Cir.), *cert. denied*, 393 U.S. 826 (1968), held that the grant of motion picture rights can *only* be construed to include a grant of television rights when the latter medium was known and had been introduced to the market at the time of the grant, and where, therefore, the rights with respect thereto *could have been* intentionally reserved by the grantor. *Id.* at 154; *see also*

Kirke La Shelle Co. v. Paul Armstrong Co., 263 N.Y. 79, 85, 188 N.E. 163, 166 (1933) ("Since 'talkies' were unknown at the time when the contract was entered into, it cannot be said that 'talkie' rights were within the contemplation of the parties. . . .").

The Second Circuit's decision here did not even mention its prior landmark holding in *Bartsch*. The Court misconstrued the issue to be "whether . . . the term 'motion picture' [in a 1930's license] unambiguously *excludes* home videocassettes." 68 F.3d at 629 (Pet. App. 17a) (Emphasis added). As *Manners* and *Bartsch* make clear, the issue is not whether the term "excludes" anything, but whether an intent to grant (i.e., "include") rights to unknown technology may be inferred from the words used and their context. That issue already has been answered in the negative by other circuits and New York State courts considering after-invented video technology in the context of licenses issued later in time than Disney's. *See Cohen v. Paramount Pictures Corp.*, 845 F.2d 851, 853-55 (9th Cir. 1988) (1969 synch. license); *Rey v. Lafferty*, 990 F.2d 1379, 1387-91 (1st Cir.) (1970's contracts), *cert. denied*, ___ U.S. ___, 114 S. Ct. 94 (1993); *Bloom v. Hearst Entertainment. Inc.*, 33 F.3d 518, 524-25 (5th Cir. 1994); (1988 license); *Tele-Pac, Inc. v. Grainger*, 168 A.D.2d 11, 570 N.Y.S.2d 521 (1st Dep't) (1964 license), *appeal dismissed*, 79 N.Y.2d 822, 588 N.E.2d 99, 580 N.Y.S.2d 201 (1991); *General Mills Inc. v. Filmtel Int'l Corp.*, 195 A.D.2d 251, 599 N.Y.S.2d 820 (1st Dep't 1993) (1959 and 1960 contracts).

Judge Friendly's decision in *Bartsch* that "*Kirke La Shelle* teaches that New York will not charge a grantor with the duty of expressly saving television rights *when he could not know of the invention's existence*," which places the burden of expressly obtaining rights to unknown technology upon the licensee, is well-established. *Bartsch*, 391 F.2d at 154 (*citing Kirke La Shelle Co., supra*); *see also Ettore v. Philco Television Broadcasting Corp.*, 229 F.2d 481 (3d Cir.), *cert. denied*, 351 U.S. 926 (1956). Prior to the Second Circuit's

opinion herein, this rationale consistently has been followed, including by the Ninth Circuit in *Cohen v. Paramount*, *supra* at 854, the First Circuit in *Rey v. Lafferty*, *supra* at 1388; the Fifth Circuit in *Bloom v. Hearst*, *supra* at 525, as well as other courts. *See Brown v. Twentieth Century Fox Film Corp.*, 799 F. Supp. 166, 171-72 (D. D.C. 1992), *aff'd*, 15 F.3d 1159 (D.C. Cir. 1994); *Muller v. Walt Disney Prods.*, 871 F. Supp. 678, 683-84 (S.D.N.Y. 1994); *Maljack Prods. Inc. v. Goodtimes Home Video Corp.*, 30 U.S.P.Q.2d 1959, 1962 (C.D. Cal. 1994); *General Mills, Inc. v. Filmtel Int'l. Corp.*, 206 N.Y.L.J. 25 (Sup. Ct. Oct. 10, 1991), *aff'd*, 195 A.D.2d 251, 252, 599 N.Y.S.2d 820, 821 (1st Dep't 1993), *see also* Joanne B. Nakos, Comment, *An Analysis of the Effect of New Technology on the Rights Conveyed by Copyright License Agreements*, 25 Cumb. L. Rev., 433, 437 (1995) ("Any court should recognize that it was not possible to foresee certain developments in technology so as to provide for them by contract"); Jane C. Ginsburg, *Domestic and International Copyright Issues Implicated in the Compilation of Multimedia Product*, 25 Seton Hall L. Rev., 1397, 1408 (1995) ("[I]f the contract unambiguously states that the author grants rights in all media now know or later developed, courts may hold the author to that grant. However, if the contract is ambiguous as to its coverage of future modes of exploitation and if the new medium was 'completely unknown at the time when the contract was written,' courts will decline to interpret the contract as covering the new use.").

Contrary to the Second Circuit's contention, *Rey*, *Cohen*, and *Tele-Pac*, were not limited to a factual holding that "a grant of television rights does not include home videocassette rights." *Cohen* expressly held that a grant of rights for the exhibition of film in theaters and by broadcast on television did not confer videocassette rights because the dissimilarity between the technologies and markets for these media was obvious and because film and television "have very little in common" with videocassettes. *Cohen*, 845 F.2d at 853-54.

Given that the licenses at issue only spoke about the technologies addressed in *Cohen*, and given that New York state courts have followed *Cohen*, a similar result was mandated.[11] *See General Mills*, 195 A.D.2d at 252, 599 N.Y.S.2d at 821 (license granting "exclusive right in perpetuity to all exhibition rights (television and theatrical)" does not "extend to videocassettes or videodiscs for home use because these media comprise 'an entirely different device involving an entirely different concept and technology' "); *Tele-Pac, Inc. v. Grainger*, *supra*, 168 A.D.2d at 16-19, 570 N.Y.S.2d at 525.

"Motion pictures" meant only one thing in the 1930's—celluloid film. *See Patterson v. Century Prods., Inc.*, 93 F.2d 489, 493 (2d Cir. 1937) ("motion picture" and "film" used interchangeably), *cert. denied*, 303 U.S. 655 (1938); *Metro-Goldwyn-Mayer Distrib. Corp. v. Bijou Theatre Co.*, 59 F.2d 70, 76-77 (1st Cir. 1932) (same); *Metro-Goldwyn Mayer Distrib. Corp. v. Bijou Theatre Co.*, 3 F. Supp. 66, 71-73 (D. Mass. 1933) (same). The need for the express statement that "[Disney] reserves television rights" in the 1933 contract (JAX 954, ¶2) and the references to the United Artists theatrical distribution agreement ((JAX 954, ¶9), clearly reflects the parties' understanding that "motion pictures" was not used to describe all means of audiovisual exploitation, but rather was used only to license back to Disney the right to record the music in connection with the filming of comic cartoons for public release in theaters.[12]

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[11] Indeed, in the 1939 "Pinocchio" contract, Disney did not even reserve television rights, as it did in the 1933 Shorts Agreement, even though television technology was in existence. 68 F.3d at 629 (Pet. App. 18a).

[12] *Muller v. Walt Disney Productions*, 871 F. Supp. 678, 683-84 (S.D.N.Y. 1994), which dismissed plaintiff's copyright infringement action because a 1939 synchronization license from Leopold Stokowski to Disney granting "all rights of every kind" to the film "Fantasia" defined a "photoplay" as "a motion picture production, produced and/or exhibited with or accompanied by sound and/or reproducing and/or trans-

To compound its error, the Second Circuit mistakenly relied upon the post-1970's definition of the words "motion picture" taken from the 1971 Senate Committee Report to the Sound Recording Act and the Copyright Act of 1976 which concededly incorporated recently-invented videocassette technology. This reasoning runs afoul of this Court's rule that "the views of one Congress as to the meaning of an act passed by an earlier Congress are not ordinarily of great weight, and the views of the committee of one House of another Congress are of even less weight." *United States v. X-Citement Video, Inc.*, ___ U.S. ___, 115 S. Ct. 464, 471 n.6 (1994) (citations omitted); *United States v. Southwestern Cable Co.*, 392 U.S. 157, 170 (1968); *Heilman v. Bell*, 583 F.2d 373, 376-77 (7th Cir. 1978) (interpreting 1909 Copyright Act), *cert. denied*, 440 U.S. 959 (1979). This approach is at war with the *Manners* and *Bartsch* inquiry into the intent of the parties at the time of contract and the existence of available media of distribution at that time.

The Second Circuit's total departure from controlling precedent is underscored by its mistaken citation of *Bloom v. Hearst Entertainment Inc.*, *supra* at 525, for the proposition that "a general grant of motion picture rights is potentially broad enough to contemplate . . . [videocassettes] as [a] means of distribution." 68 F.3d at 630 (Pet. App. 20a). The cited Fifth Circuit dicta in *Bloom* is limited to the facts involving a 1988 license which led to the finding that "in June 1988 the use of video as a medium for the distribution of motion pictures was foreseeable. The home video may not have been an antiquity in 1988, but it certainly had been with us long enough for the appellants to be cognizant of its existence." *Id.* It is telling that the Second Circuit omitted reference to *Bloom*'s holding that "to satisfy the *Bartsch* test

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mitting devices, radio devices, television and all other improvements and devices which are now or hereafter may be used," *id.* at 680-81, demonstrates that Disney could have reserved similar future technology rights when it negotiated with Bourne for the rights to "Pinocchio" in the same year, if that had been its intent.

. . . *the new use [must] be foreseeable.*" *Id.* (Emphasis added). Precisely the opposite was true in the 1930's when, as the Second Circuit conceded, "the specific technology underlying today's VCRs was not available." 68 F.3d at 630 (Pet. App. 20a).

The Second Circuit's reliance upon the existence of "home viewing of motion pictures" as a basis for finding that videocassette technology was "within the contemplation" of persons in the 1930's, not only disregards *Manners* and *Bartsch*, but confuses market with technology. 68 F.3d at 630 (Pet. App. 20a). What people viewed at home in the 1930's was the same thing that was screened in theaters—celluloid film exhibited by means of a projector and a screen. The "technology" was identical. However, the uncontroverted evidence is that electronic and electromagnetic video recording and exhibition technology and market invented in the 1970's was wholly and fundamentally different from the mechanical film technology and market. (JAX 431-40, 631-32, 663-678, 701-22, 752-53, 1240); *see also Cohen v. Paramount Pictures Corp.*, 845 F.2d 851, 853-54 (9th Cir. 1988).

C. THE DECISION OF THE COURT OF APPEALS IMPERMISSIBLY SHIFTS THE BURDEN TO THE COPYRIGHT OWNER TO PROVE THE ABSENCE OF GRANT OF FUTURE TECHNOLOGY

The Second Circuit's erroneous conclusion that "where only the scope of the license is at issue, the copyright owner bears the burden of providing that the defendant's copying was unauthorized" (Pet. App. 22a), improperly shifts the burden of proof on Disney's affirmative defense of license to the copyright owner. This clashes with established precedent in the Second, Fifth and Ninth Circuits and Professor Nimmer's treatise, which all put the burden of establishing a license defense on the defendant. *United States v. Larracuente*, 952 F.2d 672, 673-74 (2d Cir. 1992); *CMS Software Design Sys., Inc. v. Info Designs, Inc.*, 785 F.2d 1246,

1247 (5th Cir. 1986); *Oddo v. Ries*, 743 F.2d 630, 634 n.6 (9th Cir. 1984); 3 *Nimmer, supra*, § 13.04 at 13-151. The Second Circuit's reliance upon dicta in *S.O.S., Inc. v. Payday, Inc.*, 886 F.2d 1081 (9th Cir. 1989), is misplaced because in that case the Ninth Circuit nevertheless correctly placed the burden of proof on the defendant. *Id.* at 1088 ("Payday has not demonstrated that it acquired any more than the right to possess a copy of the software for the purpose of producing 'product' for its customers."). Where the existence and scope of the license are coextensive because the technology at issue was not invented at the time of the grant, the Second Circuit's decision places an impossible burden upon the copyright owner to prove a negative.

The gravity of this error is underscored by the Court's unprecedented conclusion that "[c]opyright disputes involving only the scope of the alleged infringer's license . . . present . . . a question that is essentially one of contract . . . [where] the party claiming breach carries the burden of persuasion," which clashes with the fundamental distinction between copyright and contract cases and the longstanding principle that all rights not expressly granted are reserved by the copyright owner. *See S.O.S., Inc. v. Payday*, 886 F.2d at 1088 ("copyright licenses are assumed to protect any use not authorized"); *Cohen*, 845 F.2d at 853 (license analyzed to determine what uses it affirmatively permits); *Gilliam v. American Broadcasting Co.*, 538 F.2d 14, 20 (2d Cir. 1976) (an exercise of rights "may not exceed the specific purpose for which permission was granted."); *Bartsch*, 391 F.2d at 154.

II. THE QUESTIONS OF FEDERAL LAW DECIDED BY THE COURT OF APPEALS UNSETTLES THE LAW IN AN IMPORTANT AREA AND THEREFORE THE PUBLIC INTEREST REQUIRES THIS COURT'S REVIEW

As this Court noted in *Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, 156 (1975):

> The immediate effect of our copyright law is to secure a fair return for an "author's" creative labor. But the ultimate aim is, by this incentive, to stimulate artistic creativity for the general public good. . . . When technological change has rendered its literal terms ambiguous, the Copyright Act must be construed in light of this basic purpose.

See also Sony Corp. v. Universal Studios, Inc., 464 U.S. 417, 429-30 (1984).

The royalties derived from Bourne's exploitation of the copyrights are shared with Disney, pursuant to the licenses, and with the original authors pursuant to agreement. If Disney, a non-exclusive licensee, were to retain all of the revenues from videocassettes, the original authors, as well as Bourne, the copyright owner, would get nothing. Consequently, in order for all parties, including Disney, to benefit from the invention of new technology, Bourne, as the copyright owner, must receive the benefit of newly-invented media and methods for exploiting its copyrights. *See* Neil R. Nagano, *Past Copyright Licenses and the New Video Software Medium*, 29 U.C.L.A. L. Rev. 1160, 1184-85 (1982) ("A court in a gray area situation should . . . realize that it would generally be fairest to hold that new use rights are not included in the licenses"). The Second Circuit's improper construction of the 1930's licenses and erroneous application of Section 109 deprive Bourne and the heirs of the original authors, of the benefits of copyright ownership and the fruits of their

labors to the detriment of the constitutional purpose of furthering the progress of the arts and sciences. *Mazer v. Stein*, 347 U.S. 201, 219 (1954).

When videocassette technology was first developed in the 1970's, the music and film industries, including Disney, modified or renegotiated for new consideration their synchronization licenses or provided in new licenses for the making and the distribution of video copies to the public for home use. (JAX 738-44; Brief of Amicus Curiae National Music Publishers' Association below ("NMPA Br.") 6-7). Thus, for decades two industries have understood and by their conduct have recognized that the early licenses which referred only to "motion pictures" were not sufficient to grant rights to fix copyrighted music onto videocassettes or to sell them. When Disney, as copyright owner, has negotiated synchronization licenses, it has been careful to distinguish between the rights to copy and perform and the right to sell videocassette copies. (*See, e.g.*, JAX 1321-24 (license for Walt Disney Music to Buena Vista Home Video for "Simply Mad About the Mouse"); JAX 1325-39 (Disney Form Synchronization License)).

The impact of the Second Circuit's decision is to throw the thousands of motion picture synchronization licenses, including those which have been rendered for videocassettes based upon *Bartsch* and its progeny, into question because of the split in the Circuits. It also leaves copyright draftspersons addressing the issue of new technologies—such as the "information superhighway," as well as those currently being developed or to be developed in the ever increasingly fast-paced "digital age"—without any uniform or reliable standards. (NMPA Br. 1-3).

The Second Circuit's dramatic *ad hoc* revision of Section 109 is by no means limited to videocassettes. It involves an issue of exceptional importance to authors and copyright owners. For example, as *amicus curiae* below, National Music

Publisher's Association, Inc., pointed out, "the many hundreds of thousands of licenses issued by HFA [Harry Fox Agency] on behalf of music publishers for the use of their songs in the making and distribution of phonorecords ("mechanical licenses") . . . by the . . . erroneous application of Section 109 . . . [will] be subject to claims that the recordings involved can be used under such mechanical licenses for non-phonorecord use and distribution." (NMPA Brief at 9).

Nor is the Second Circuit's holding with respect to the first sale doctrine restricted to copyright law, given "the historic kinship between patent law and copyright law" noted in this Court's opinion in *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417, 439 (1984). Similar issues concerning the first sale doctrine have arisen in patent law. *See, e.g., McCoy v. Mitsuboshi Cutlery, Inc.*, 67 F.3d 917 (Fed. Cir. 1995), *cert. denied*, ___ U.S. ___, 64 U.S.L.W. 3620 (1996). The first sale doctrine has also been viewed as raising issues of paramount concern with respect to copyright licenses concerning computer software and multimedia. *See* Kenneth R. Corsello, Note, *The Computer Software Rental Amendments Act of 1990: Another Bend in the First Sale Doctrine*, 41 Cath. U.L. Rev. 177 (1991).

CONCLUSION

For the reasons herein stated, the petition for a writ of certiorari should be granted.

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